Office for National Statistics

Statistical bulletin

Economic well-being, UK: January to March 2017

Presents a rounded and comprehensive basis for assessing changes in economic well-being through indicators that adjust or supplement more traditional measures such as gross domestic product (GDP).

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Next release:
3 October 2017

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1 . Main points

- Gross domestic product (GDP) per head in the UK was unchanged (0.0% growth) compared with the previous quarter and increased by 1.3% compared with the same quarter a year ago (Quarter 1 (Jan to Mar) 2016).

- Net national disposable income (NNDI) per head increased by 4.3% between Quarter 1 2016 and Quarter 1 2017, mainly due to a £6.9 billion increase in the income received from the UK's foreign direct investment from abroad.

- Despite improvements in both GDP per head and NNDI per head, real household disposable income (RHDI) per head declined by 2.0% in Quarter 1 2017 compared with the same quarter a year ago – the largest decrease since the end of 2011, driven by increasing prices of goods and services.

- Average quarterly growth in social transfers in kind – for example, education and health care services provided for free, or at little cost by the government – was 0.2% between Quarter 1 2010 and Quarter 1 2017 compared with 1.9% between Quarter 1 2002 and Quarter 4 (Oct to Dec) 2010.

- Between Quarter 4 2016 and Quarter 1 2017, consumers reported an improvement in their perception of their own financial situation and the general economic situation over the last year, despite falling growth in GDP per head and a decline in RHDI per head.

2 . Economic well-being indicators at a glance

Figure 1: Economic well-being indicators, UK, Quarter 1 (Jan to Mar) 2017

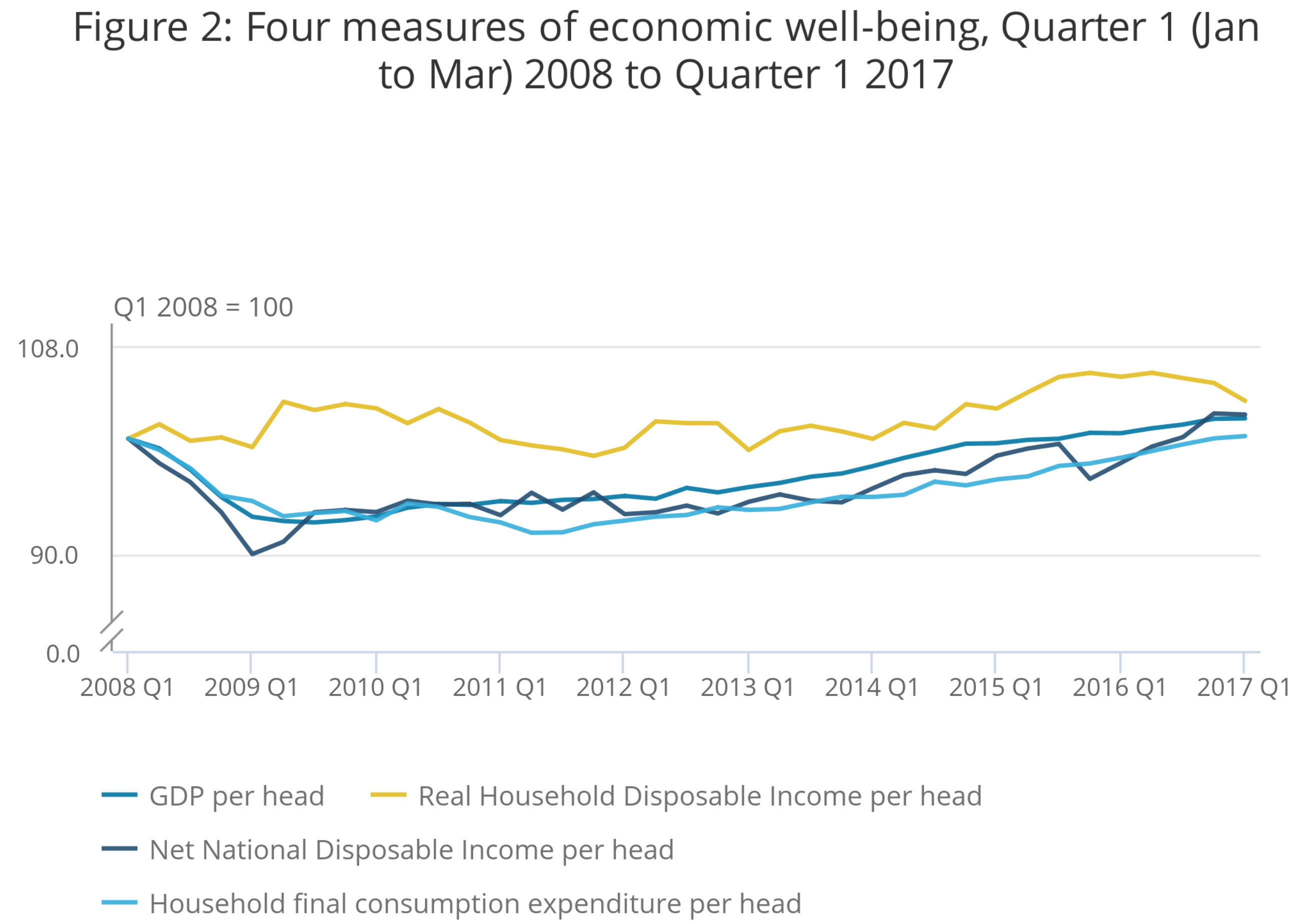
3 . Things you need to know about this release

This release reports measures of economic well-being in the UK. Rather than focusing on traditional measures such as gross domestic product (GDP) alone, these indicators aim to provide a more rounded and comprehensive basis for assessing changes in material well-being.

We prefer to measure economic well-being on a range of measures rather than a composite index. The framework and indicators used in this release were outlined in Economic Well-being, Framework and Indicators, published in November 2014.

4 . What were the main changes in economic well-being in Quarter 1 2017?

Figure 2: Four measures of economic well-being, Quarter 1 (Jan to Mar) 2008 to Quarter 1 2017



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 (July to September) and Q4 refers to Quarter 4 (October to December).

2. Households do not include non-profit institutions serving households (NPISH).

3. The above indicators are presented in real prices.

Real gross domestic product per head

Growth in real gross domestic product (GDP) per head was 0.0% in Quarter 1 (Jan to March) 2017 compared with the previous quarter – down 0.5 percentage points on growth in the previous quarter. This was a slower growth rate than the 0.2% quarterly increase in GDP.

The growth rate in GDP per head in Quarter 1 2017 was the joint-lowest recorded over the past 4 years and was 0.4 percentage points lower than average growth over this period.

Real net national disposable income per head

Real net national disposable income (NNDI) per head increased by 4.3% between Quarter 1 2017 and Quarter 1 2016, compared with a 1.3% increase in GDP per head over the same period. Growth in NNDI per head recorded in Quarter 1 2017 continues the marked improvement in the series beginning at the end of 2016 and is 2.5 percentage points above average growth over the past 4 years.

As shown in the “Economic well-being indicators at a glance” section, NNDI per head represents the income available to all residents in the UK. There are two main differences between GDP per head and NNDI per head.

First, not all income generated by production in the UK will be payable to UK residents. For example, a country whose firms or assets are predominantly owned by foreign investors may well have high levels of production, but a lower national income once profits and rents flowing abroad are taken into account. As a result, the income available to residents would be less than that implied by measures such as GDP.

Second, NNDI per head is adjusted for capital consumption. GDP is “gross” in the sense that it does not adjust for capital depreciation, that is, the day-to-day wear and tear on vehicles, machinery, buildings and other fixed capital used in the productive process. It treats such consumption of capital as no different from any other form of consumption, but most people would not regard depreciation as adding to their material well-being.

Following 2 quarters of negative growth in Quarter 4 (Oct to Dec) 2015 and Quarter 1 2016, NNDI per head increased continuously. During this period, average growth was 2.7% per quarter (compared with the same quarter a year ago), compared with 1.2% average growth in GDP per head. This means that the growth in income available to residents to spend or save is greater once cross-border flows are taken into account.

The improvement in NNDI per head over recent quarters is mainly driven by an increase in the income to UK residents from investments abroad. Compared with the same quarter a year ago, the income to UK residents from investments abroad has increased by an average £1.4 billion per quarter between Quarter 2 (July to Sept) 2016 and Quarter 1 2017. This is in contrast with the period between Quarter 1 2012 and Quarter 1 (Apr to June) 2016, when the income that UK residents received from investments abroad fell by an average £0.7 billion per quarter.

More detailed analysis on the contributions to growth in NNDI and the relationship with the balance of primary incomes was presented in Economic well-being: Quarter 4, Oct to Dec 2016 .

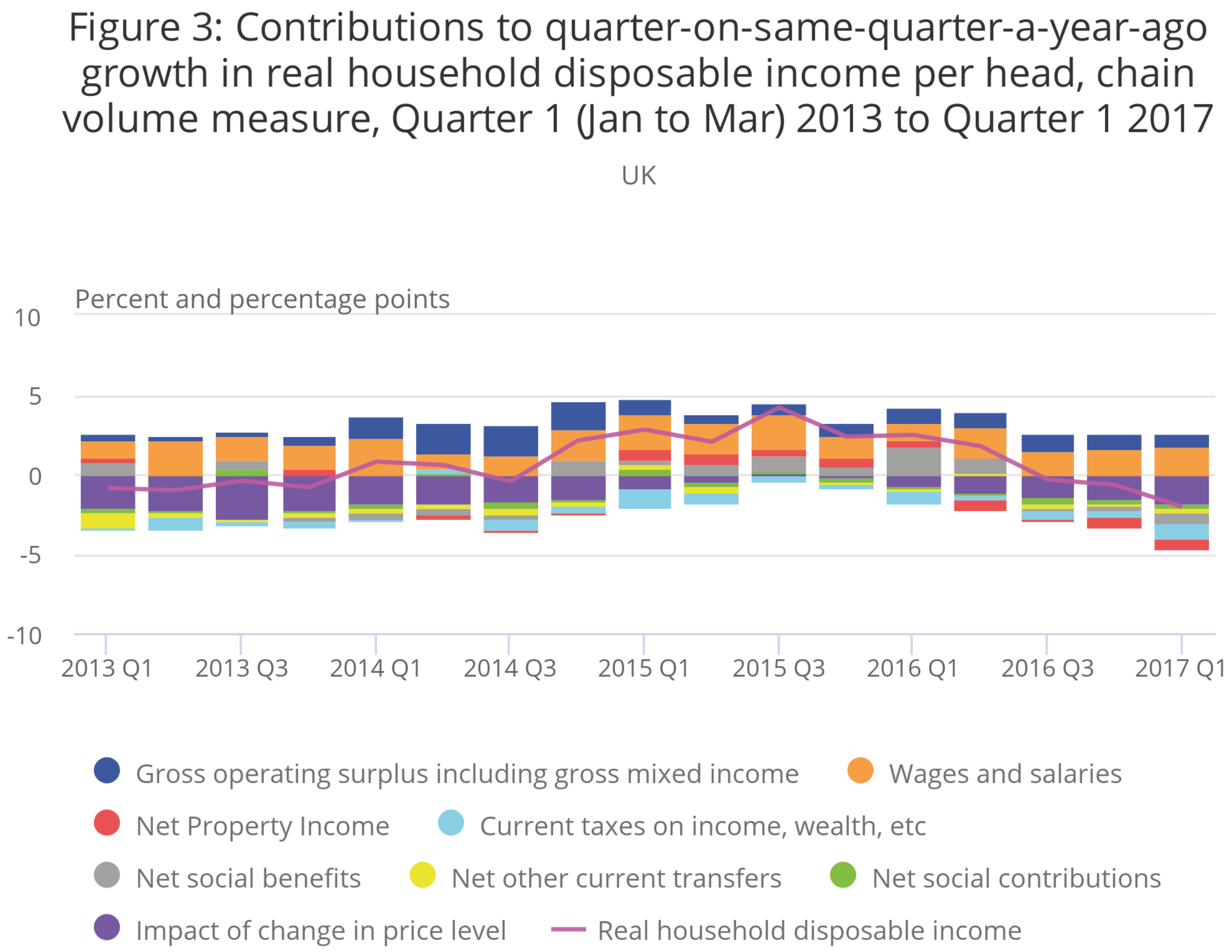
Household income

Unless stated otherwise, analysis of real household disposable income (RHDI) in this bulletin excludes non-profit institutions serving households (NPISH). We consider this a better indicator of economic well-being as it focuses more on the household experience than the traditional measure, which includes the NPISH sector. Real household and NPISH disposable income per head will continue to be published alongside RHDI per head (excluding NPISH) in the datasets.

In Quarter 1 2017, RHDI per head declined by 2.0% compared with the same quarter a year ago (Quarter 1 2016) – 3.0 percentage points lower than the 4-year average growth rate, but still 3.3% above its pre-economic downturn level.

Figure 3: Contributions to quarter-on-same-quarter-a-year-ago growth in real household disposable income per head, chain volume measure, Quarter 1 (Jan to Mar) 2013 to Quarter 1 2017

UK



Source: Office for National Statistics

Notes:

1. Real household disposable income includes non profit institutions serving households (NPISH).

2. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

3. Contributions may not sum due to rounding.

Despite growth in both NNDI per head and GDP per head in Quarter 1 2017, RHDI decreased at the fastest rate since the end of 2011. Figure 2 highlights the contributions to growth from different components of RHDI (including NPISH). It shows that, higher prices facing households had a negative contribution to RHDI (including NPISH) growth in Quarter 1 2017 compared with the same quarter a year ago – contributing negative 1.8 percentage points. However, growth in wages and salaries (in nominal terms) supported RHDI (including NPISH), contributing 1.7 percentage points.

Adjusted household income

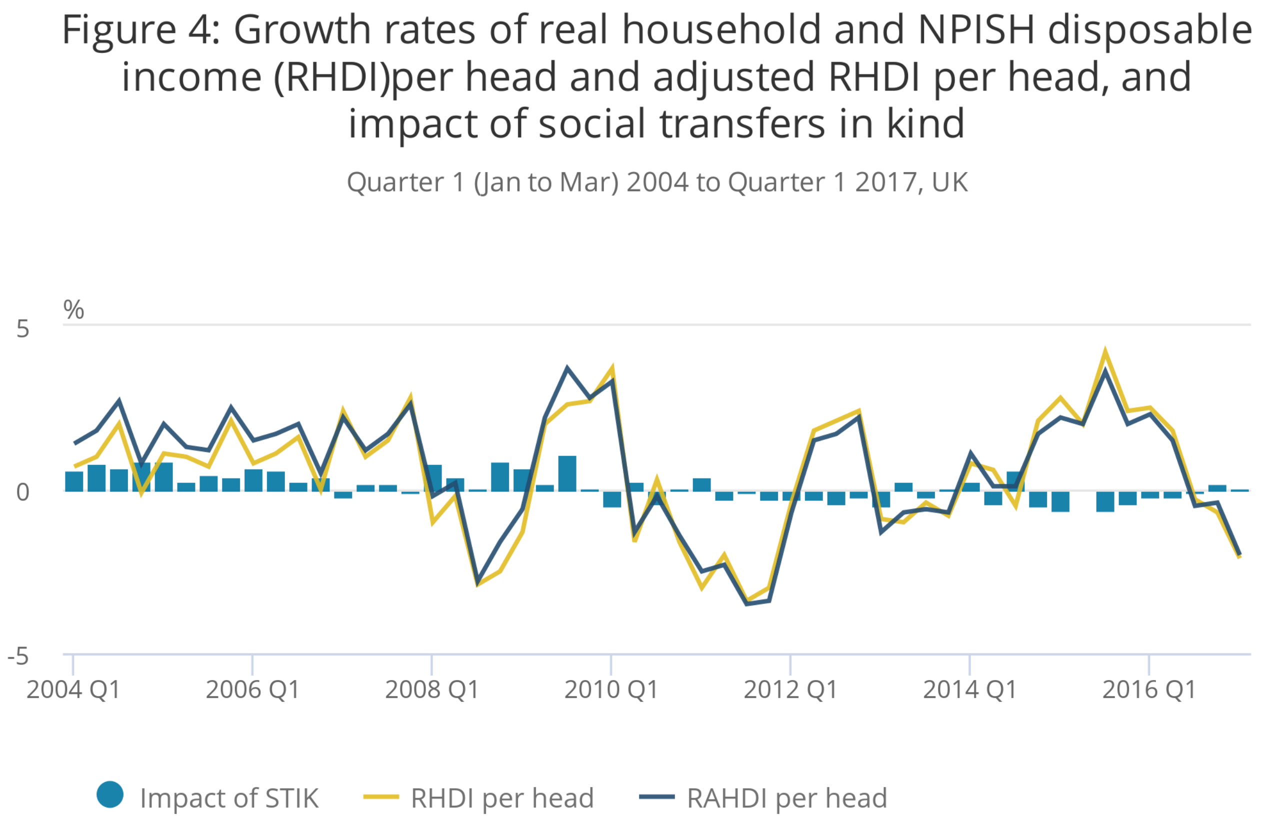
One of the limitations of RHDI per head as a measure of economic well-being is that it does not take into account transfers-in-kind – such as education and health care services – that households receive.

To examine the role of these types of benefits more closely, this section of the bulletin compares changes in real adjusted gross household disposable income (RAHDI) with RHDI (including NPISH). RAHDI is an adjusted version of RHDI, which incorporates social transfers in kind (STIK).

STIK consist of individual goods and services provided as transfers-in-kind to individual households by government units and non-profit institutions serving households (NPISHs), whether purchased on the market or produced as non- market output by government units or NPISHs.

Figure 4: Growth rates of real household and NPISH disposable income (RHDI)per head and adjusted RHDI per head, and impact of social transfers in kind

Quarter 1 (Jan to Mar) 2004 to Quarter 1 2017, UK



Source: Office for National Statistics

Notes:

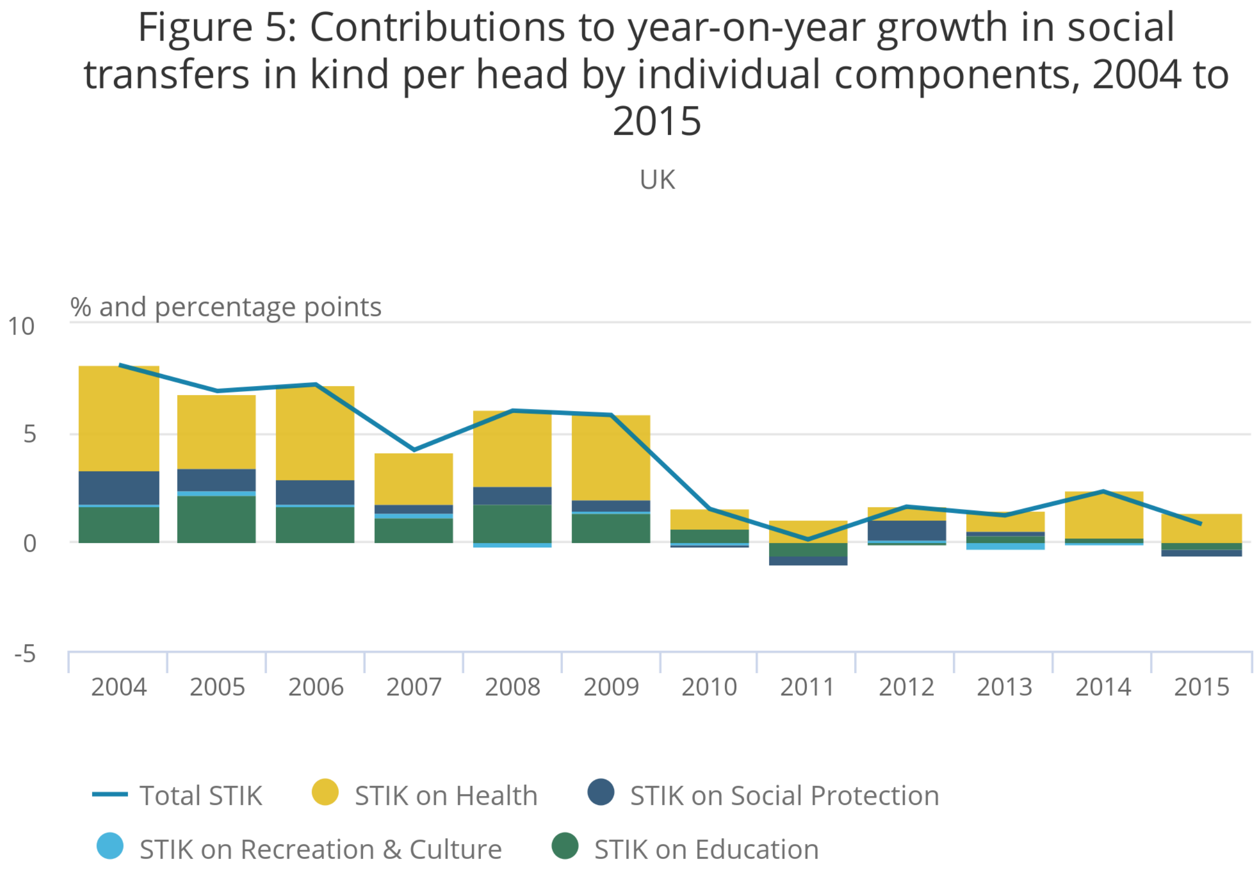
1. Real household disposable income includes non profit institutions serving households (NPISH).
2. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).
3. Data are presented in real prices.
4. Quarter-on-same-quarter-a-year-ago growth rate

Figure 4 highlights that during the period between Quarter 1 2004 and Quarter 4 2008, average RAHDI per head growth was higher than RHDI per head growth – 1.1% per quarter compared with 0.7% per quarter respectively. This suggests that over this period, households were receiving additional benefits not captured in RHDI, with positive implications for economic well-being.

However, from Quarter 1 2009 to Quarter 1 2017, the growth of STIK waned, meaning that both measures of income followed similar trajectories – each growing at an average of 0.4% per quarter (compared with the same quarter a year ago).

Figure 5: Contributions to year-on-year growth in social transfers in kind per head by individual components, 2004 to 2015

UK



Source: Office for National Statistics

Notes:

1. The STIK are presented in current prices.

Figure 5 examines the reversal in the growth of STIK per head analysing, in current prices, contributions from health and education services, social protection (such as social housing), and recreation and culture (for example, libraries).

It highlights that in the period leading up to 2010, all components provided positive contributions to growth in STIK per head, with government expenditure on healthcare and education services the main drivers. Average annual growth in STIK per head was 6.0% between 2004 and 2009, with average contributions of 3.5 and 1.7 percentage points from healthcare services and education services respectively.

However, following 2009, average annual growth in STIK per head was 4.8 percentage points lower compared with the period prior to 2009. This was mainly driven by a fall in the growth rate in the value of education services provided – contributing 0.0 percentage points on average per year since 2009.

Household expenditure

In Quarter 4 2016, real household spending per head (excluding non-profit institutions serving households (NPISH)) grew 0.2% compared with the previous quarter, continuing the general upward trend seen since Quarter 3 2011. As highlighted in Figure 1, real household spending per head (excluding NPISH) was 0.2% higher than its pre-economic downturn level in Quarter 1 2017. This is despite real household disposable income per head (excluding NPISH) being 3.3% above its pre-economic downturn level in Quarter 1 2017.

The increase in household spending and the decrease in household income had a negative impact on the saving ratio. The household and NPISH saving ratio decreased from 6.1 to 1.7 from Quarter 1 2016 to Quarter 1 2017.

5 . Economic sentiment

It is important to consider sentiment, along with other measures of economic well-being, to improve our understanding of how changes in official measures of the economy are perceived by individuals. The Eurobarometer Consumer Survey, conducted by GFK on behalf of the European Commission, provides information regarding perceptions of the economic environment. The “Quality and methodology” section provides more information regarding the Eurobarometer Consumer Survey.

General economic situation and perception of financial situation

The Eurobarometer Consumer Survey asks consumers their views on the state of the general economic situation over the previous 12 months. A positive balance means that consumers perceived an improvement within the economy, a zero balance indicates no change and a negative balance indicates a perceived worsening.

Figure 6: Consumer perceptions of general economic situation and their own financial situation over last 12 months, January 2006 to March 2017

UK

Source: European Commission

Notes:

1. The source is the Eurobarometer Consumer Survey, which is collected by GFK for the European Commission. Further information can be found in Quality and Methodology section.

2. A negative balance means that, on average, respondents reported the general economic situation worsened. A positive balance means they reported it improved and a zero balance indicates no change.

Between Quarter 4 (Oct to Dec) 2016 and Quarter 1 (Jan to March) 2017, the perception of the general economic situation improved slightly from a balance of negative 23.3 to negative 21.8. Despite the small improvement, the negative balance is still suggesting that households perception of the general economic situation is unfavourable, potentially because of the decline in UK's currency and rising inflation.

The series had been on a general upwards trend in recent years until April 2015, before the trend turned negative in July 2015. Analysis by GFK suggests that the negative trend could potentially be explained by economic uncertainty abroad and later, in 2016, reduced confidence following the EU referendum.

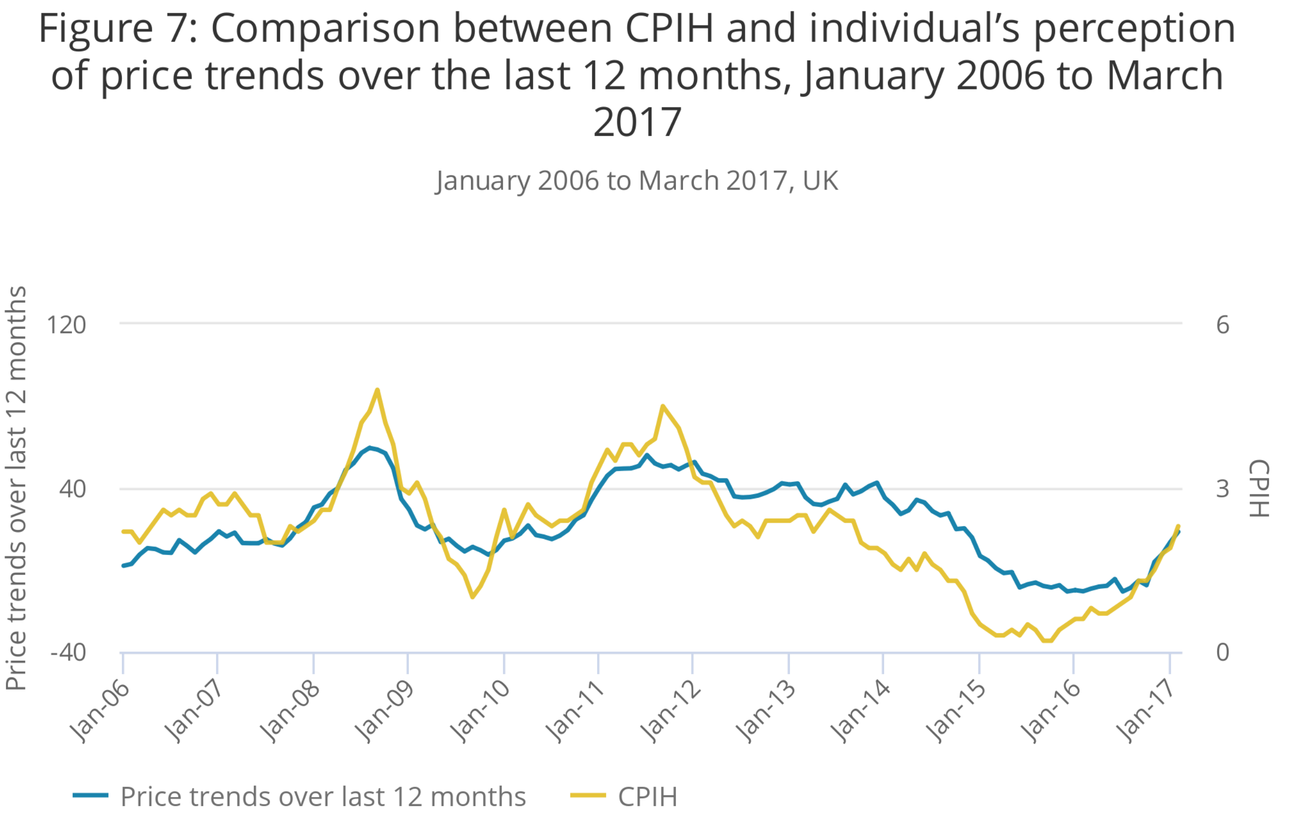
The survey also asks respondents about their own financial situation. This has generally been positive since May 2015 (it was negative in July and August 2016), ending a 7-year negative balance since February 2008. In the latest quarter, the balance increased from 0.7 in December 2016 to 1.2 in March 2017, indicating that consumers are still positive about their financial situation, despite an increase in the price level.

Perception of inflation

The Eurobarometer Consumer Survey also asks respondents about their perception of prices over the previous 12 months. A positive balance suggests that consumers perceive prices to have increased over the previous 12 months, while a negative balance suggests the opposite. In Quarter 1 2017, the balance increased to positive 20.8 from positive 7.8 in Quarter 4 2016.

Figure 7: Comparison between CPIH and individual's perception of price trends over the last 12 months, January 2006 to March 2017

January 2006 to March 2017, UK



Source: Office for National Statistics, European Commission

Notes:

1. CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic and we are working to address these.
2. The source is the Eurobarometer Consumer Survey, which is collected by GfK for the European Commission. Further information can be found in Quality and Methodology.
3. A negative balance means that, on average, respondents reported that the price level decreased. A positive balance means they reported it increased and a zero balance indicators no change.

Consumers' perception of inflation remained negative for 19 months between April 2015 and November 2016. This corresponds with a low Consumer Prices Index including owner occupiers' housing costs (CPIH) rate during this period – the 12-month rate was under 1% from December 2014 to July 2016 and has steadily increased since October 2015.

6 . Spotlight: developments in measuring economic well-being

The headline indicators presented in this bulletin were selected for their suitability in providing broad coverage of the economic well-being framework. Inevitably, factors such as data availability, frequency and timeliness mean that we cannot yet report regularly on all the issues covered in the well-being framework.

The situation continues to improve though. We are currently working on a number of developments, which aim to improve the existing suite of indicators and to introduce new ways of informing on economic well-being in the UK. This section of the bulletin will provide a snapshot of some of the main developments ongoing at the Office for National Statistics (ONS).

Natural capital

The UK, along with several international bodies and in-line with recommendations in the Stiglitz Report, considers sustainability through the "capitals approach". The capitals approach states that economic, natural, human and social capitals are all resources that matter for the present and future well-being of individuals.

We plan to publish estimates of human capital for 2016 later this year and regularly present indicators of social capital as part of the wider programme of measuring national well-being.

More recently, the concept of natural capital and the need to keep track of it through accounts is building momentum in the UK. Natural capital is simply the natural wealth of the UK, for example, woodland, mountains or natural coastal areas. It is from this natural capital that humans receive a wide range of services. In partnership with the UK Department for Environment, Food and Rural Affairs (Defra), we are working to produce natural capital accounts, with the aim to incorporate them into the UK Environmental Accounts by 2020.

Why is measuring natural capital Important?

A wide range of benefits are provided by natural capital, which make human life possible, such as the provision of food and water, regulating air quality and providing opportunities for recreation. Many of the benefits that society receives are free, so the value of natural assets is often hidden, partial or missing from the nation's balance sheet.

By providing valuations for the UK's natural capital, decision-makers can include the environment into their plans and include them in their policy interests. The accounts enable us to monitor the services that residents receive from natural assets and track changes to them over time. Our SlideShare summarises some of the changes identified so far.

In 2011 the government committed to working with ONS to incorporate natural capital into the UK Environmental Accounts by 2020, so that the benefits of nature would be better recognised. In the lead-up to this, our current commitments are:

- Scoping the development of natural capital accounts for mountains, moorland and heath – 6 July 2017
- UK natural capital accounts by habitat (woodland, farmland and freshwater) – 21 July 2017
- Natural capital accounts for the UK – November 2017
- Initial urban natural capital accounts – late 2017

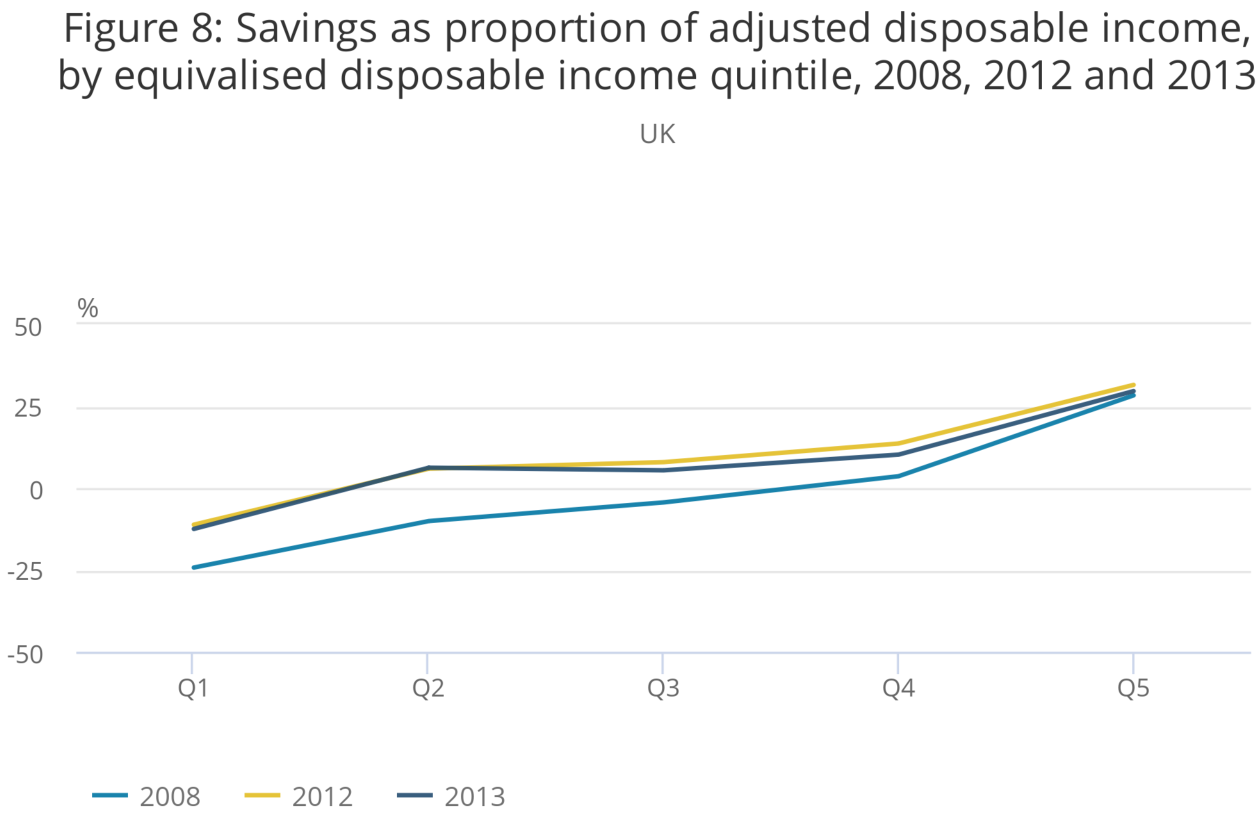
For more information on the natural capital accounts see the “Natural capital” section of the ONS website, or contact us via email at environment.accounts@ons.gsi.gov.uk.

Distributional analysis within the national accounts framework

The importance of developing statistics on the distribution of income, consumption and wealth is widely recognised both in the UK and internationally. As part of an Organisation for Economic Co-operation and Development (OECD) Expert Group on Disparities within the national accounts framework, we have been working on producing distributional national accounts totals. The process involves mapping micro data on household income and consumption, largely derived from the Living Cost and Food Survey (LCFS), to national accounts concepts.

Figure 8: Savings as proportion of adjusted disposable income, by equivalised disposable income quintile, 2008, 2012 and 2013

UK



Source: Office for National Statisitcs

Notes:

Q1 equals Quintile 1, Q2 equals Quintile 2, Q3 equals Quintile 3, Q4 equals Quintile 4, Q5 equals Quintile 5.

As an indication of the findings that are possible from this kind of analysis, Figure 7 presents savings (the difference between disposable income and actual consumption) as a percentage of adjusted disposable income for the 3 years covered in an initial exercise published by both [ONS] and the [OECD].

As distributional information for national accounts data does not currently exist, these experimental estimates are unique to the UK. A particularly striking finding is that, in 2008, the average savings rate for the second and middle quintiles were negative (minus 10% and minus 4% respectively). However, by 2012 and 2013 they became positive (varying between 5% and 8% respectively). This is explained by nominal levels of adjusted disposable income for the lower quintiles increasing at a faster rate than actual consumption.

We are aiming to further this initial distributional work by investigating the gaps between macro and micro totals and allocating them to relevant households, depending on the underlying reasons for the discrepancies. We are also looking to extend the scope of this work to include financial wealth, which will be largely based on data from the Wealth and Assets Survey (WAS). The refined methodology will build on recent national accounts developments, allowing national accounts aggregates to be adjusted in ways that were not previously possible. This will enable closer conceptual alignment between the macro and micro estimates.

Results from this exercise will be published by the end of 2017. For more information, please contact us via email at hie@ons.gsi.gov.uk.

Joint analysis of income, consumption and wealth

Stiglitz et al. (2009) highlighted the importance of considering income and consumption jointly with wealth. However, the complexity of collecting accurate income, consumption or wealth data, particularly through surveys, means that micro data sources generally contain data on at most two of these dimensions.

One option for facilitating joint analysis, which we have been taking forward, is the creation of synthetic datasets containing all the variables of interest through statistical matching techniques. Work to date has looked at the statistical matching of data from EU-SILC (income) with Household Budget Survey (consumption) data (Webber and Tonkin, 2013; Serafino and Tonkin, 2017) and with wealth data from our Wealth and Assets Survey (Tonkin, Serafino and Davies, 2016).

As a longer-term development, and as part of our Data Collection Transformation Programme (DCTP), we are moving towards an integrated Household Finance Survey, underpinned by administrative data. This process has started in 2017 through harmonising the sampling, collection and processing of the Living Costs and Food Survey (LCF) and the Survey on Living Conditions (SLC), exploiting existing commonalities and overlap between the sources. Harmonising the surveys will allow the resulting datasets to be combined to produce precise, coherent income, consumption and social exclusion statistics.

7 . Economic well-being indicators already published

Between 2014 and 2015, the total net worth per head of the UK increased by 5.1% . The largest contribution was from the household and non-profit institutions serving households (NPISH) sector.

Between 2014 and 2015, household wealth per head increased by 3.3% , mainly driven by a 6.5% increase in the wealth in non-financial assets (for example, buildings and machinery).

Between the year to December 2016 and the year to March 2017, the 12-month Consumer Prices Index with owner occupiers' housing costs (CPIH) rate increased from 1.8% to 2.3% to reach its highest level since September 2013. The increase in prices was mainly driven by a rise in prices for food, alcohol and tobacco, clothing and footwear.

The unemployment rate for those aged 16 and over decreased by 0.2 percentage points to 4.6% between the 3 months to December 2016 and the 3 months to March 2017. The employment rate (the proportion of people aged from 16 to 64 who were in work) was 74.8% in the 3 months to March 2017 – the highest rate since comparable records began in 1971.

The median UK household disposable income was £26,332 in the financial year ending 2016 (2015 to 2016); this was £564 higher than the previous year and £977 higher than the pre-downturn value of £25,355 in the financial year ending 2008 (2007 to 2008) – after accounting for inflation and household composition.

The wealthiest 10% of households owned 45% of aggregate total wealth in July 2012 to June 2014 and were 2.4 times wealthier than the second wealthiest 10%. Over the same period, the wealthiest 10% of households were 5.2 times wealthier than the bottom 50% of households (the bottom 5 deciles combined), who owned 9% of aggregate total wealth.

8 . Links to related statistics

More information on the topic of economic well-being is available, including the following publications:

- UK Economic Accounts, Table 1.1.5
- The National Balance Sheet
- Wealth and Assets Survey
- Household disposable income and inequality
- Labour market statistics
- Consumer Price Indices
- Eurobarometer Consumer Survey (produced by GFK on behalf of the European Commission)
- International comparisons of real household (including non-profit institutions serving households (NPISH)) disposable income per head index (Organisation for Economic Co-operation and Development)
- International comparisons of gross domestic product (GDP) per head index (Organisation for Economic Co-operation and Development)
- Contributions to growth in real household (including NPISH) disposable income per head (European Central Bank)

9 . Quality and methodology

Release policy

The data used in this version of the release are the latest available at 30 June 2017. The UK resident population mid-year estimates used in this publication are those published on 23 June 2016. The latest population estimates published on 22 June 2017 will be included in quarterly national accounts on 29 September 2017.

Basic quality and methodology information

Basic quality and methodology information for all indicators in this statistical bulletin is available:

- National Accounts Quality and Methodology Information report
- Consumer Price Indices Quality and Methodology Information report
- Wealth and Assets Survey Quality and Methodology Information report
- Effects of Taxes and Benefits Quality and Methodology information report
- Labour Market Quality and Methodology Information report

These Quality and Methodology Information reports contain important information on:

- the strengths and limitations of the data and how it compares with related data
- users and uses of the data
- how the output was created
- the quality of the output including the accuracy of the data

Revisions and reliability

All data in this release will be subject to revision in accordance with the revisions policies of their original release. Estimates for the most recent quarters are provisional and are subject to revision in the light of updated source information. We currently provide an analysis of past revisions in statistical bulletins, which present time series. Details of the revisions are published in the original statistical bulletins.

Most revisions reflect either the adoption of new statistical techniques or the incorporation of new information, which allows the statistical error of previous estimates to be reduced.

Only rarely are there avoidable "errors", such as human or system failures and such mistakes are made quite clear when they do occur.

More information about the revisions policies for indicators in this release is available:

- National Accounts revisions policy – covers indicators from the Quarterly National Accounts, UK Economic Accounts and the National Balance Sheet
- Wealth and Assets Survey revisions policy – covers indicators on the distribution of wealth
- Effect of taxes and benefits on household incomes revisions policy – covers indicators on the distribution of income
- Labour market statistics revisions policy – covers indicators from labour market statistics
- Consumer Price Inflation revisions policy – covers indicators from consumer price indices

Our revisions policies for economic statistics web page is dedicated to revisions to economic statistics and brings together our work on revisions analysis, linking to articles, revisions policies and important documentation from the former Statistics Commission's report on revisions.

Data that come from the Eurobarometer Consumer Survey and Understanding Society releases are not subject to revision, as all data are available at the time of the original release. These data will only be revised in light of methodological improvements or to correct errors. Any revisions will be made clear in this release.

Interpreting the Eurobarometer Consumer Survey

The Eurobarometer Consumer Survey, sourced from GFK on behalf of the European Commission, asks respondents a series of questions to determine their perceptions on a variety of factors, which collectively give an overall consumer confidence indicator. For each question, an aggregate balance is given that ranges between negative 100 and positive 100.

Balances are the difference between positive and negative answering options, measured as percentage points of total answers. Values range from negative 100, when all respondents choose the negative option (or the most negative one in the case of five-option questions) to positive 100, when all respondents choose the positive (or the most positive) option.

The questions used in this release are as follows:

Question 1: How has the financial situation of your household changed over the last 12 months? It has...

- got a lot better
- got a little better
- stayed the same
- got a little worse
- got a lot worse
- don't know

Question 3: How do you think the general economic situation in the country has changed over the past 12 months? It has...

- got a lot better
- got a little better
- stayed the same
- got a little worse
- got a lot worse
- don't know

Question 5: How do you think that consumer prices have developed over the last 12 months? They have...

- risen a lot
- risen moderately
- risen slightly
- stayed about the same
- fallen
- don't know

Further information on this consumer survey is available from the Business and Consumer Survey section of the European Commission website.

Measuring national well-being

This article is published as part of our Measuring National Well-being programme. The programme aims to produce accepted and trusted measures of the well-being of the nation – how the UK as a whole is doing. Further information on Measuring National Well-being is available, with a full list of well-being publications.